



EU & Global Dairy Markets Prospects

AFBI Dairy Conference
Belfast, 20 March 2014



Dairy Market Prospects



- EU
 - Policy Milestones
 - Soft Landing
 - Current Market
 - Outlook
- Global
 - Supply developments
 - Demand developments
- Conclusions



EU Policy Milestones



- CAP reform 2003
 - From market support to direct aid
 - Reduction of intervention prices
- Health Check 2008
 - Abolishment of Milk Quota on 1.4.2015
 - Soft Landing
 - Gradual expansion of milk quota from 2009 till 2014
 - No expansion in final quota year (?)



EU Policy Milestones



- Milk Package 2012
 - Improve dairy producers bargaining power
- 2013 CAP reform
 - Confirmation of Quota Abolishment
 - No supply management in case of crisis (?)
 - Market measures only as safety net

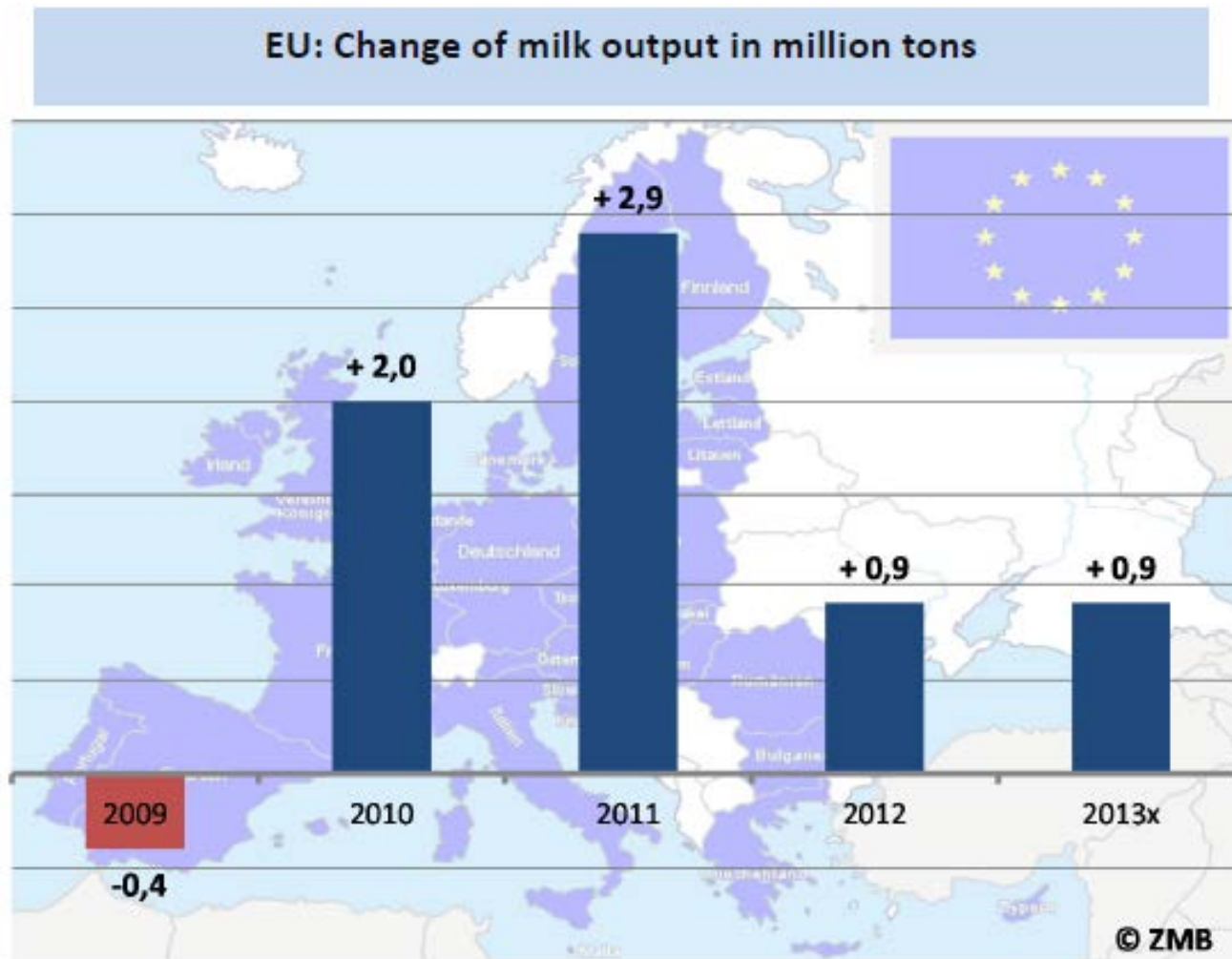


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Soft Landing On track?



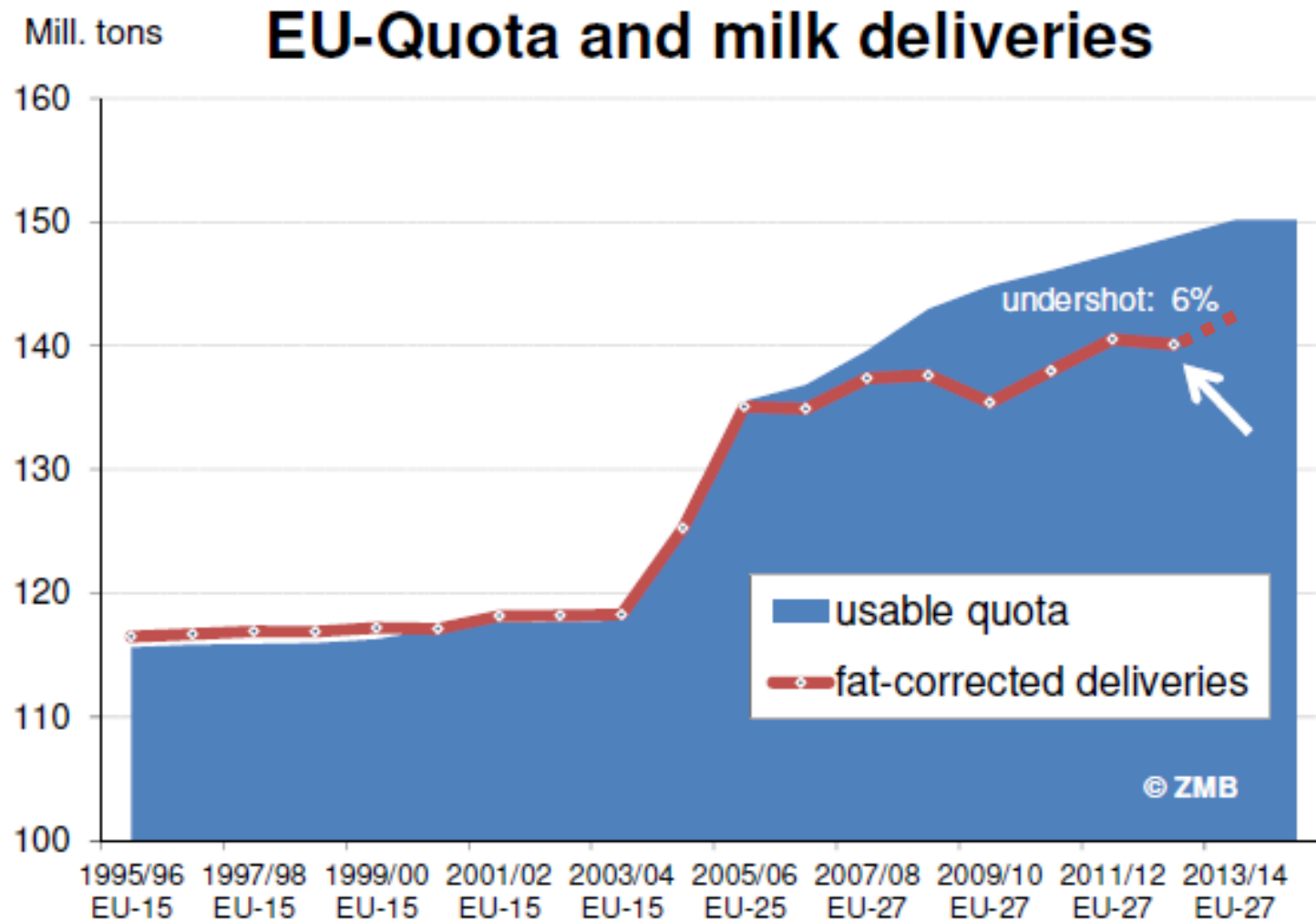


Soft Landing

Is quota still a factor today?



Source ZMB



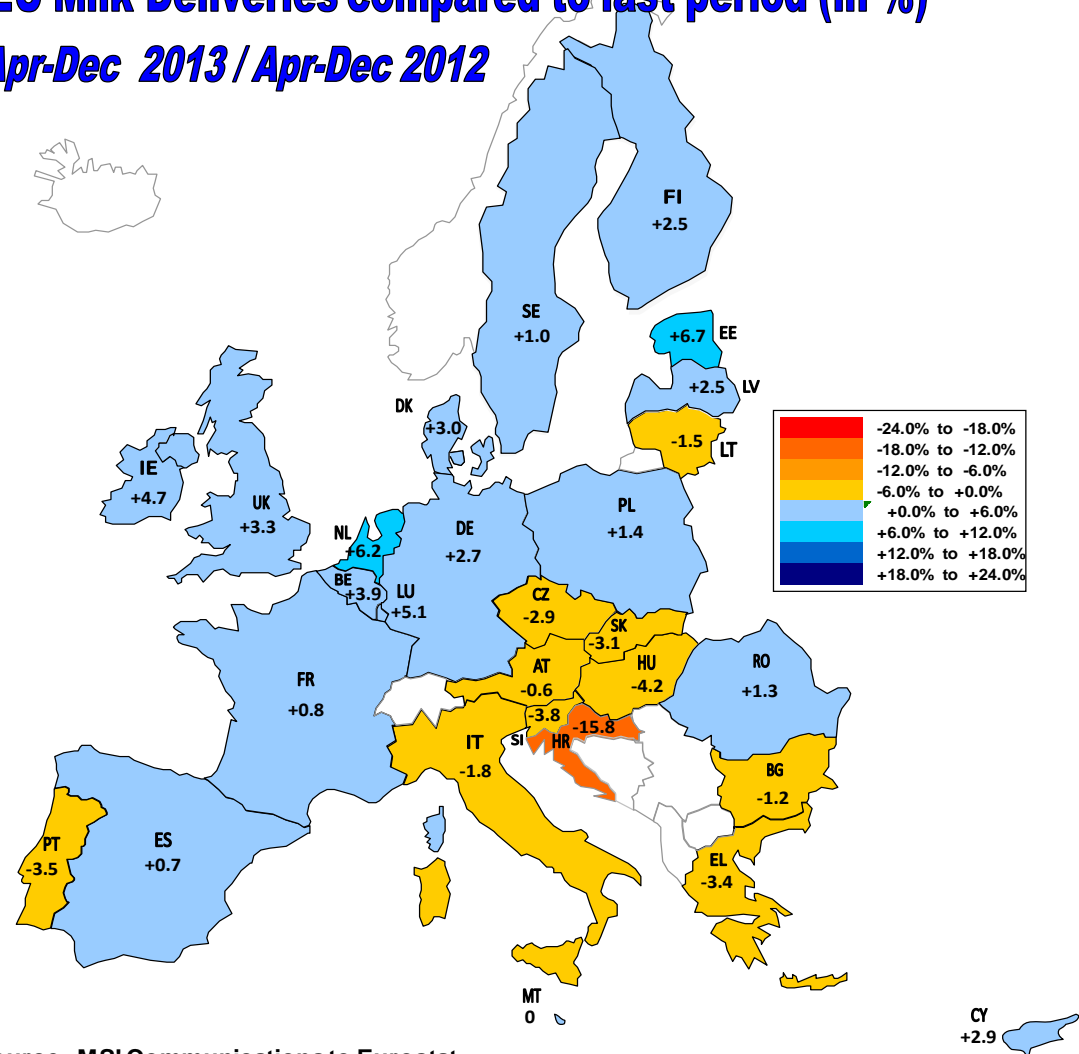


Soft Landing Countries in trouble



- Austria
- Belgium
- Denmark
- Germany
- Ireland
- Luxemburg
- Poland
- The Netherlands

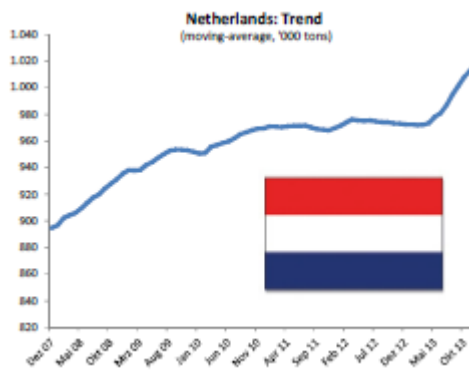
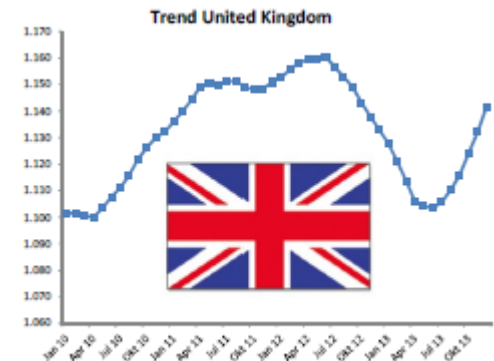
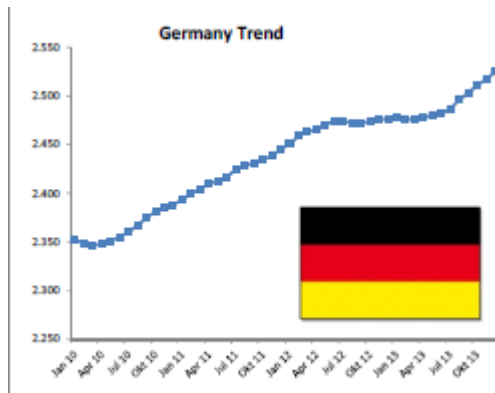
EU Milk Deliveries compared to last period (in %)
Apr-Dec 2013 / Apr-Dec 2012



Source: MS' Communications to Eurostat



Soft Landing Milk Output Profiles

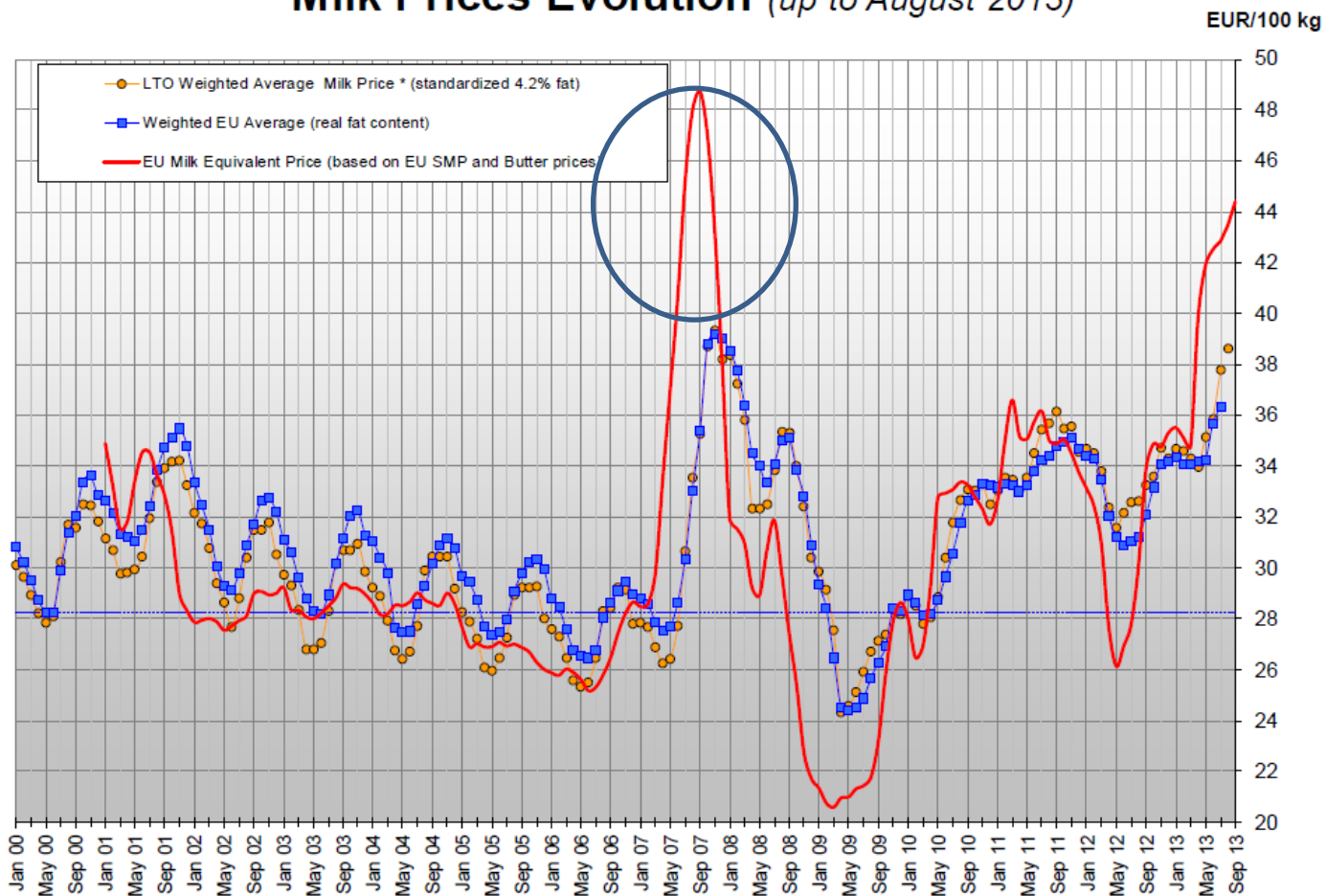




Influence of milk price volatility is contained by dairies



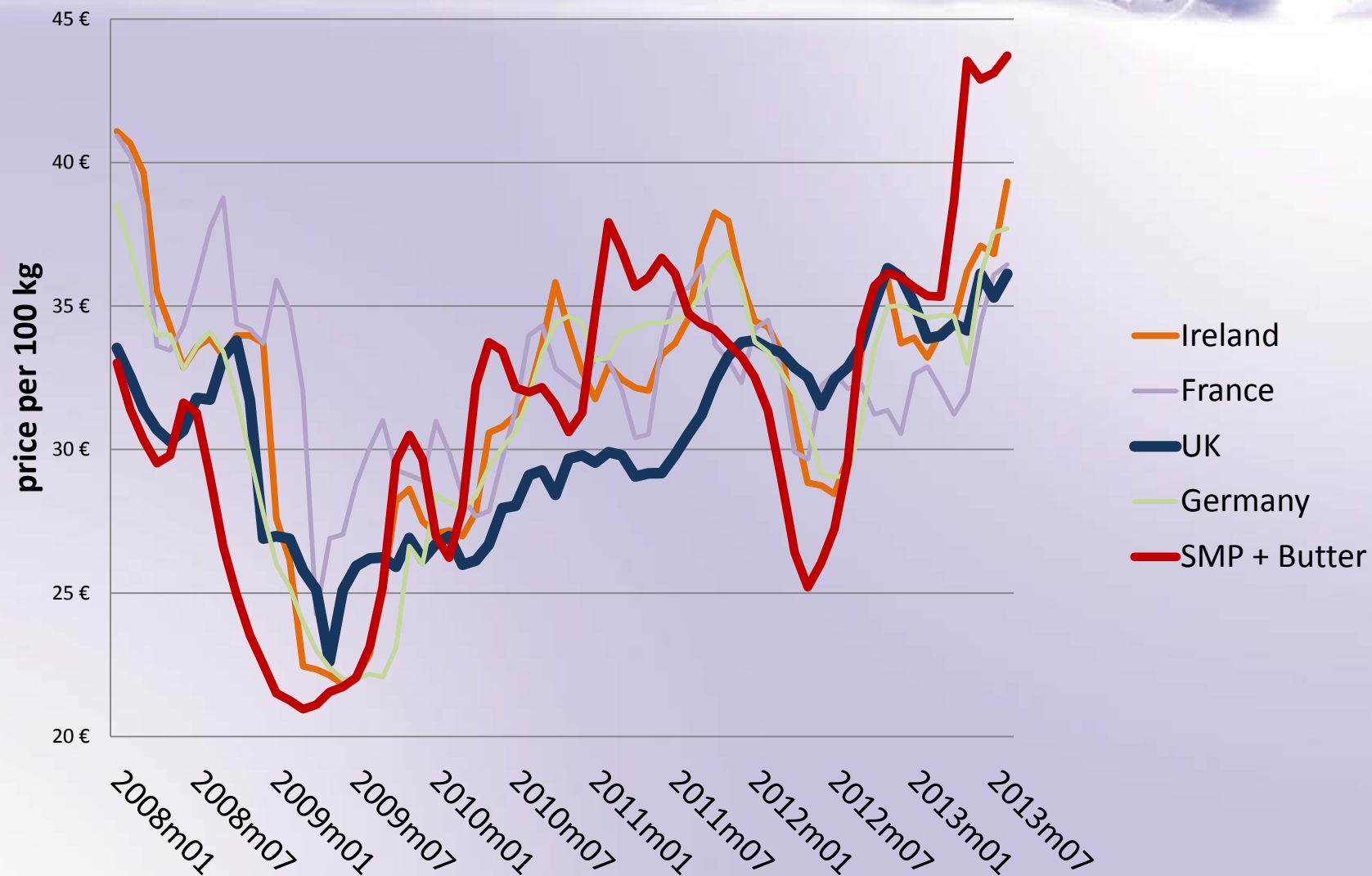
Milk Prices Evolution (up to August 2013)



Source :MS' communications under reg. 562/2005 & 479/2010 + LTO : Land- en Tuinbouworganisatie Nederland

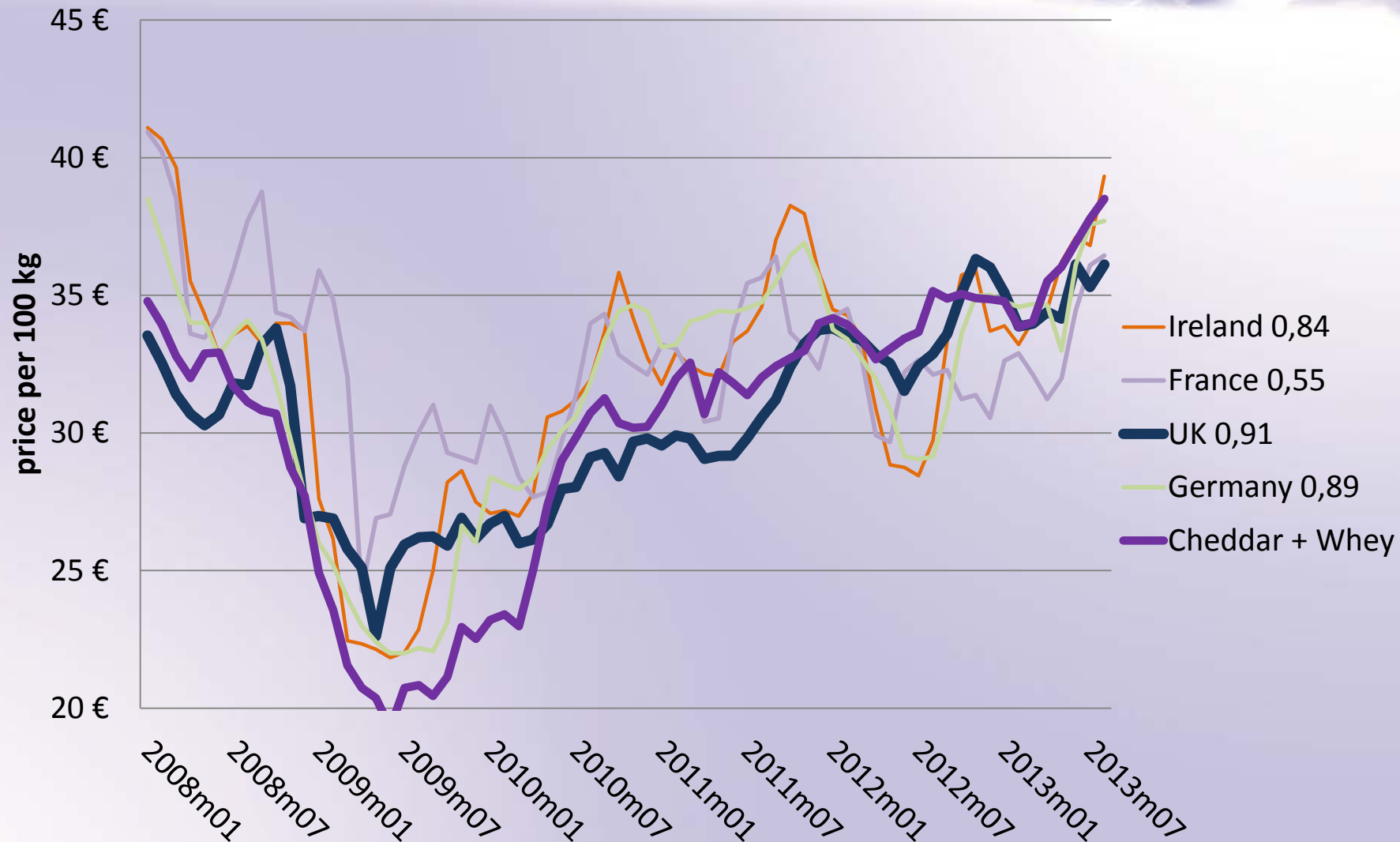


Various EU Approaches Different Milk Price Models





Various EU Approaches Different Milk Price Models





Dairy Market Prospects



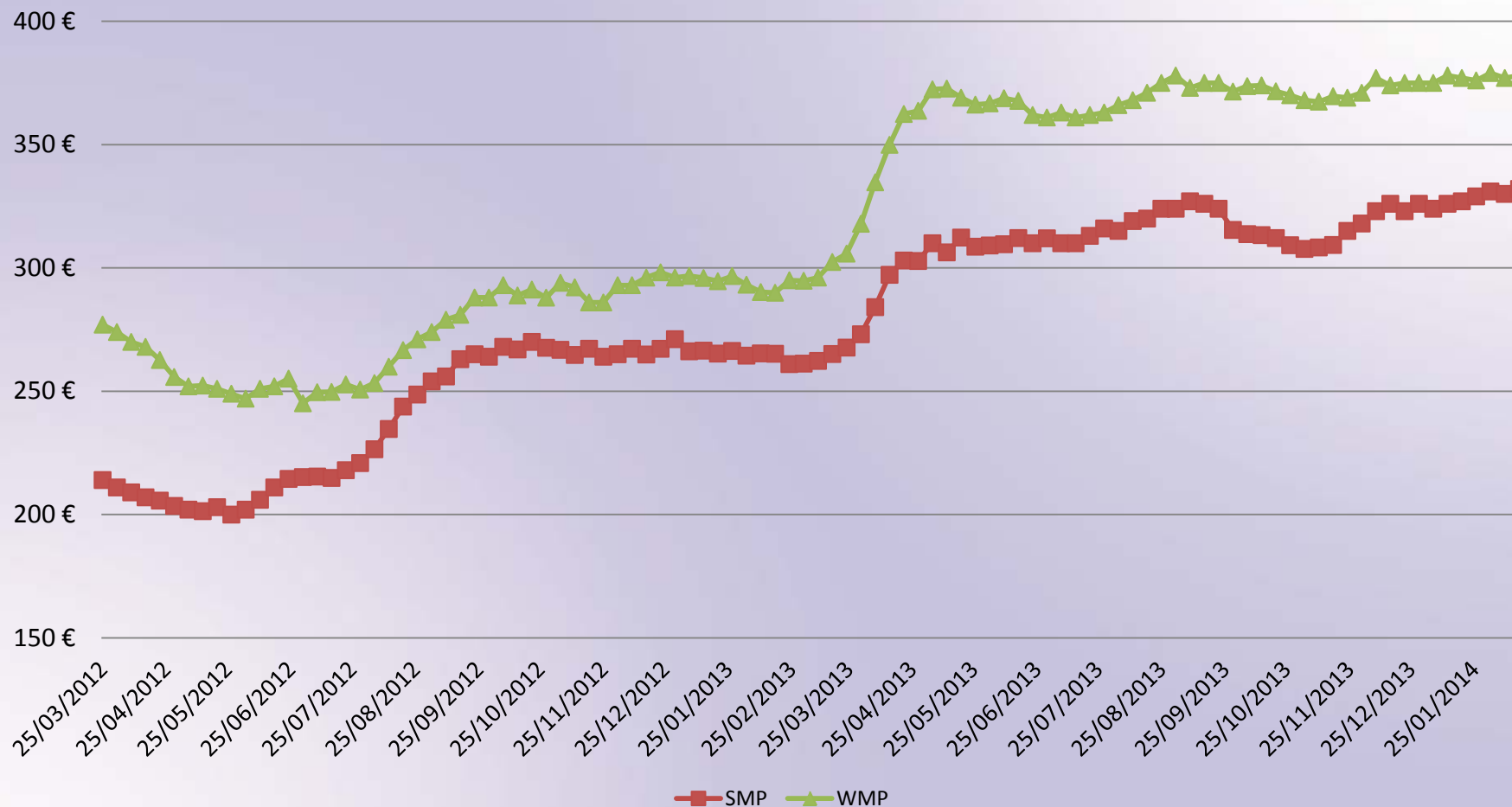
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Current Market Extended Period of High Prices



SMP + WMP 2012 -2014

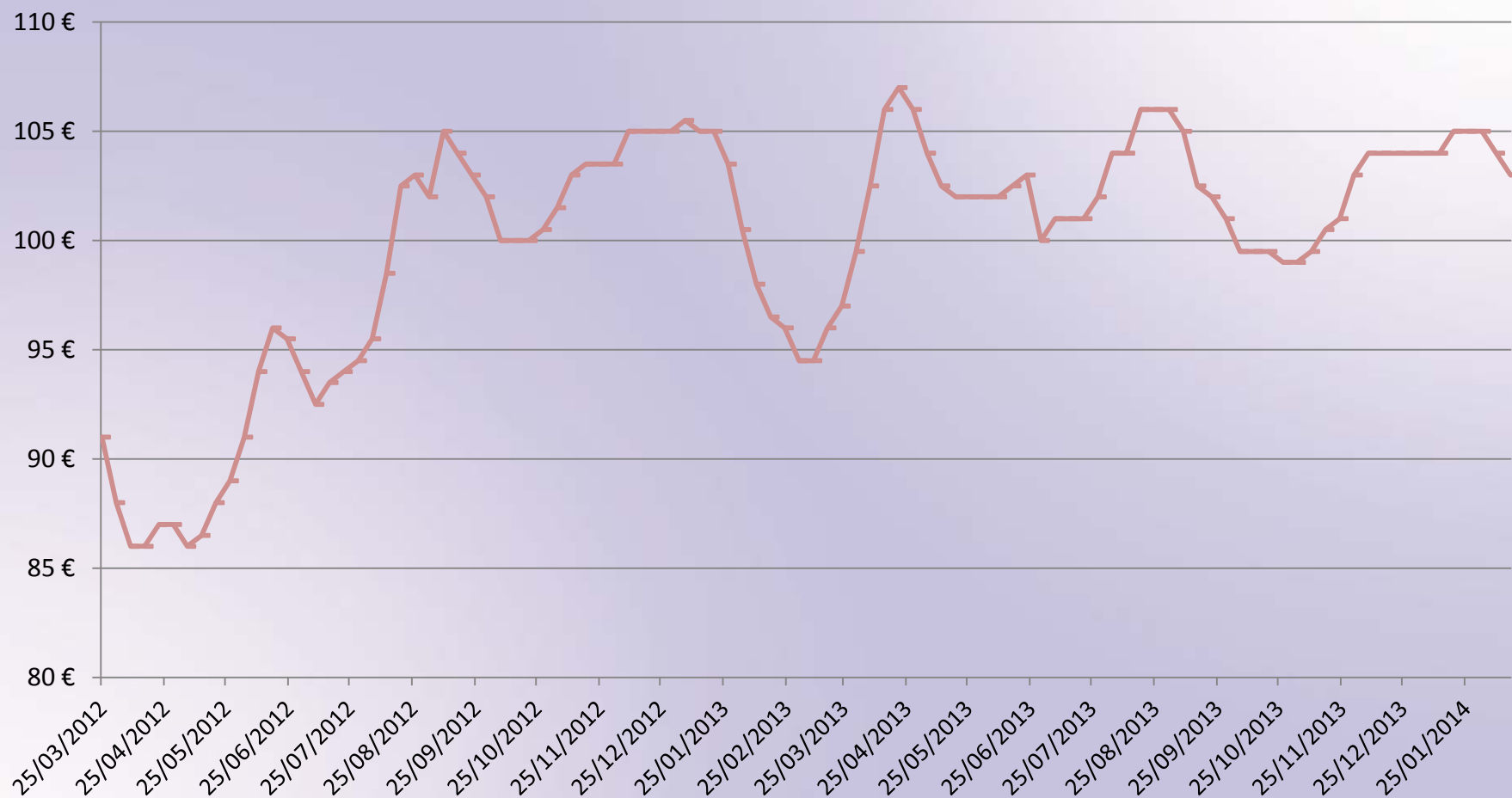




Current Market Extended Period of High Prices



WHEYPOWDER



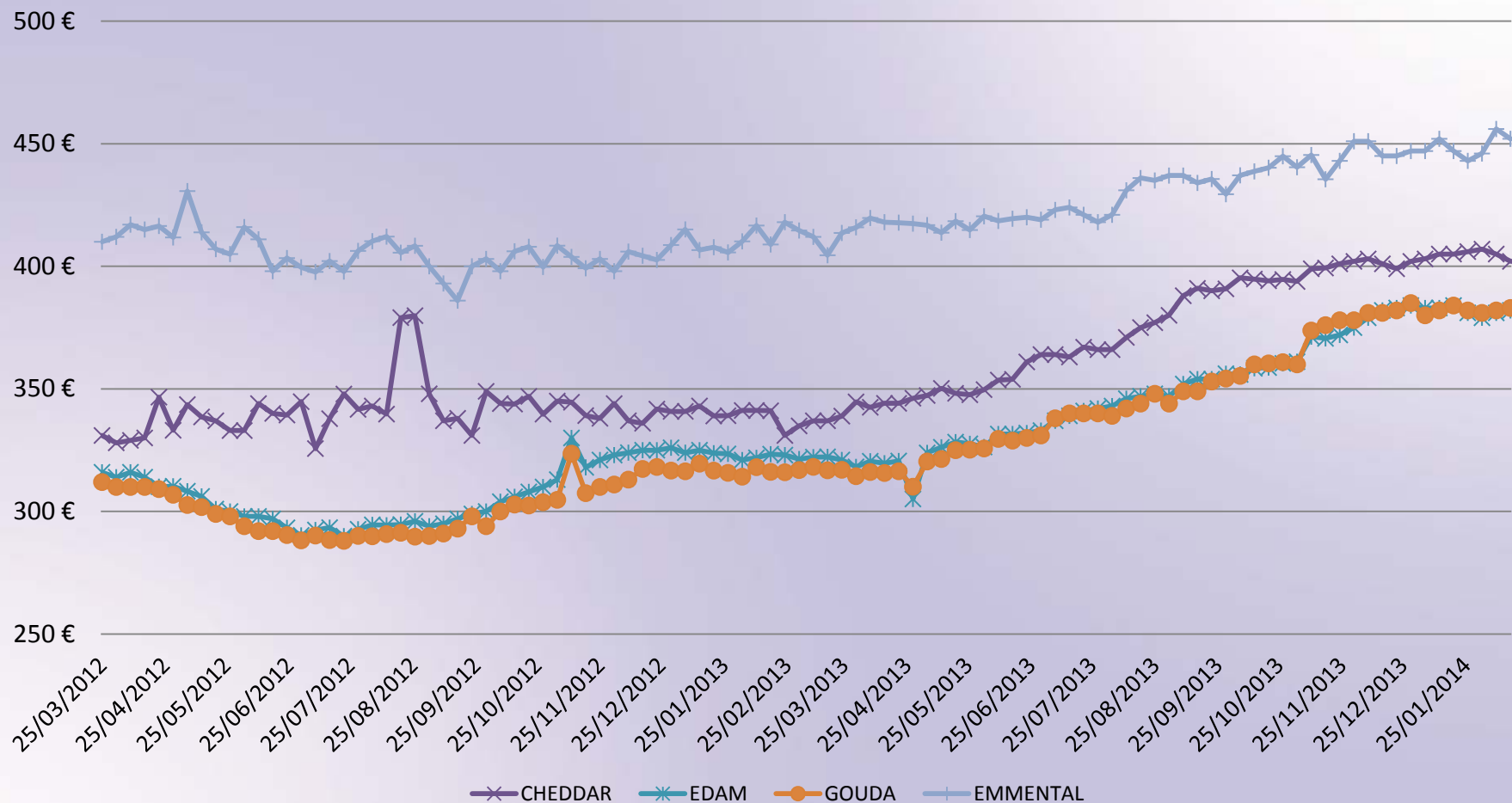
Source Commission



Current Market Extended Period of High Prices



CHEESE 2012-2014

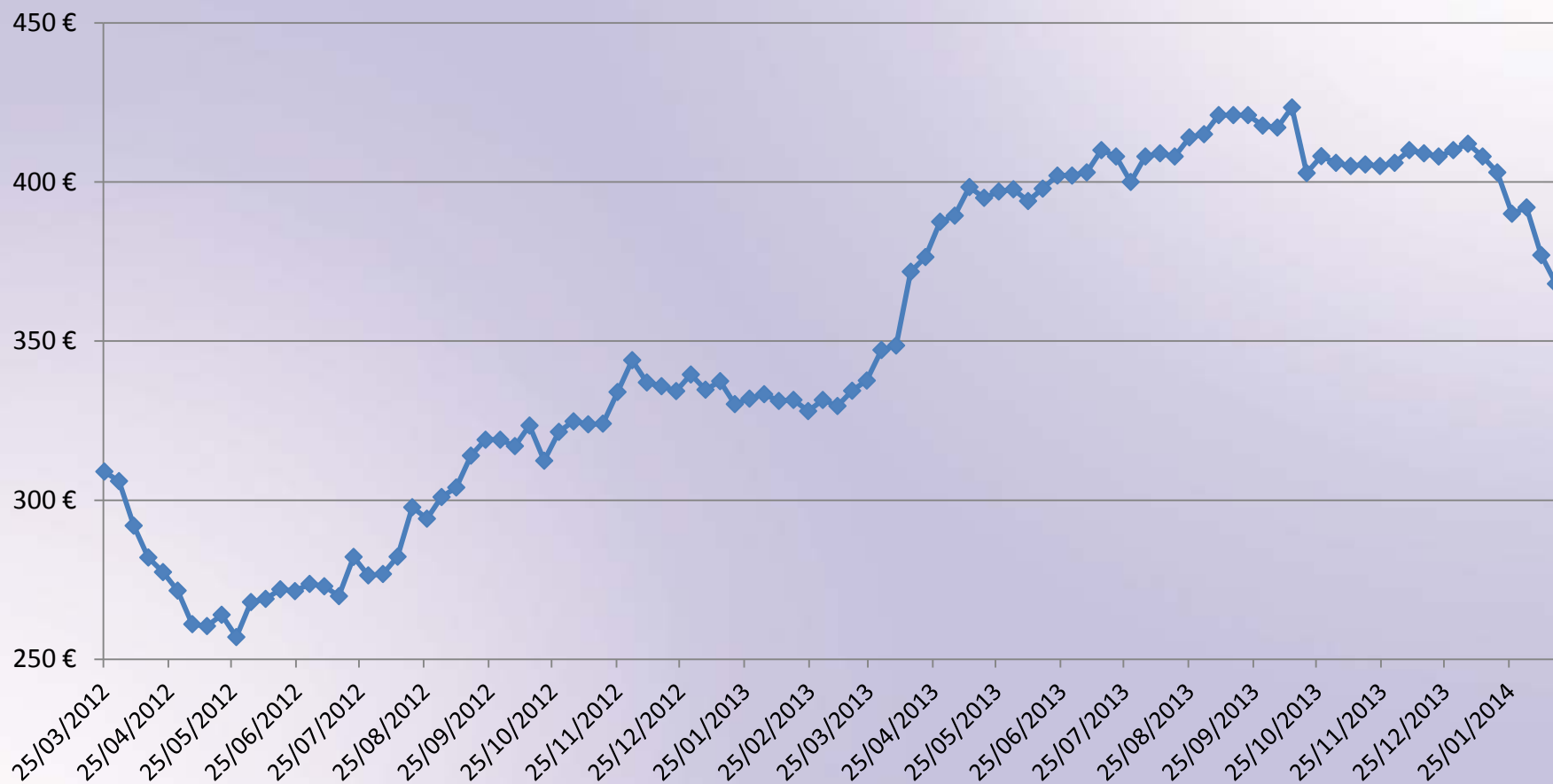




Current Market At an end for butter?



BUTTER PRICES 2012-2014



Source Commission



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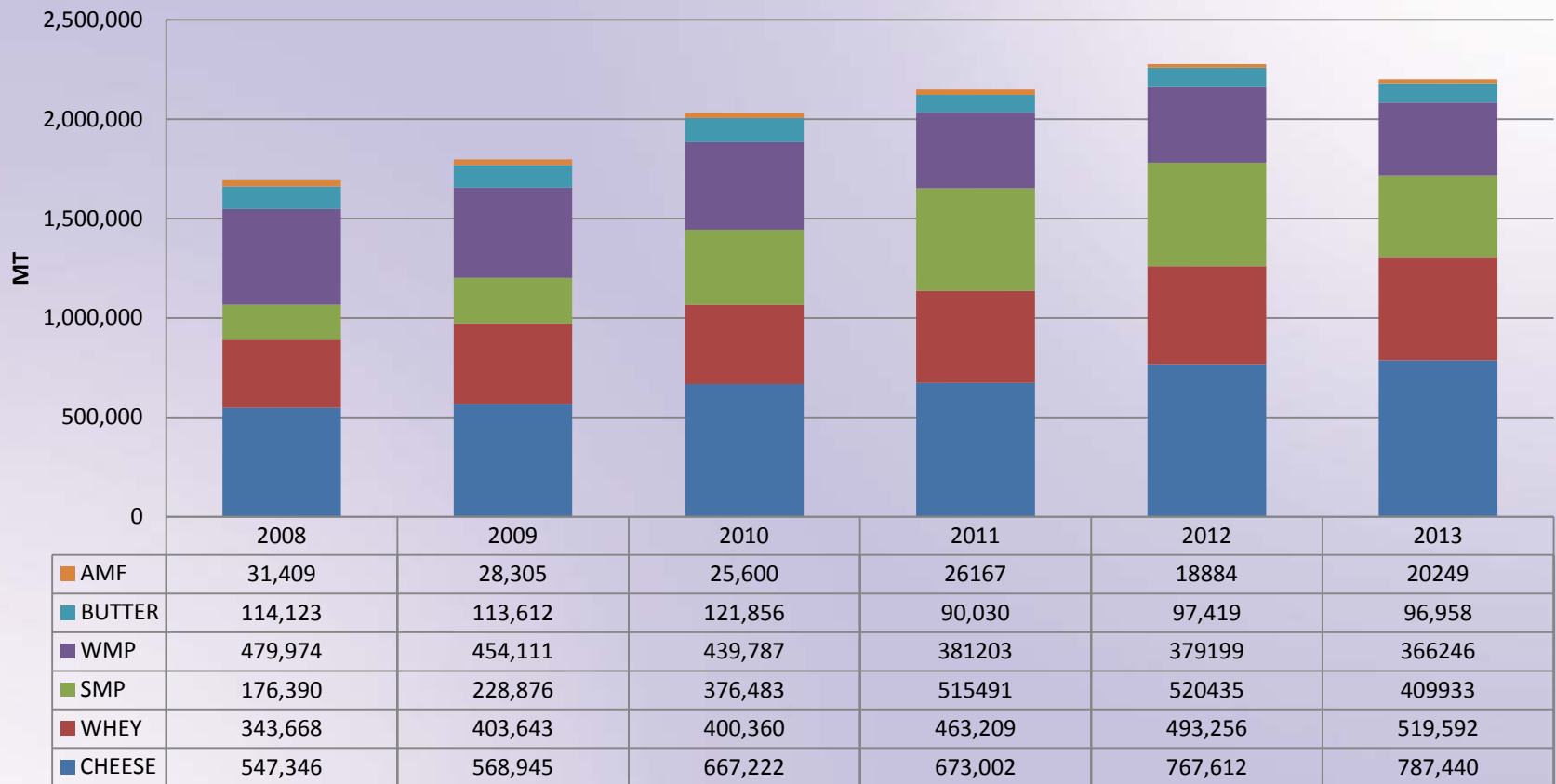


EU Outlook

2013 an exceptional year?



EU EXPORTS



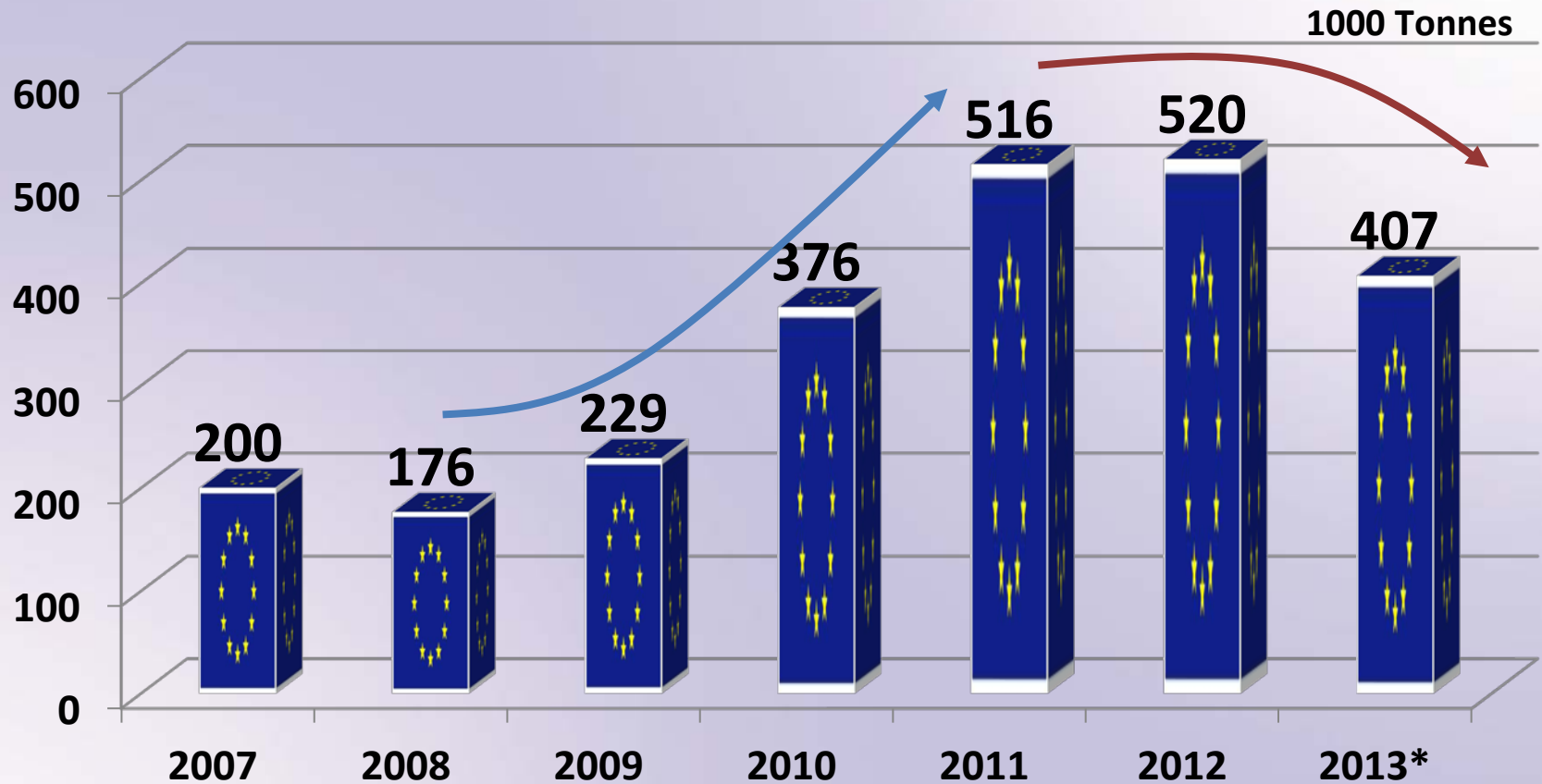


EU Outlook

Is powder in trouble?



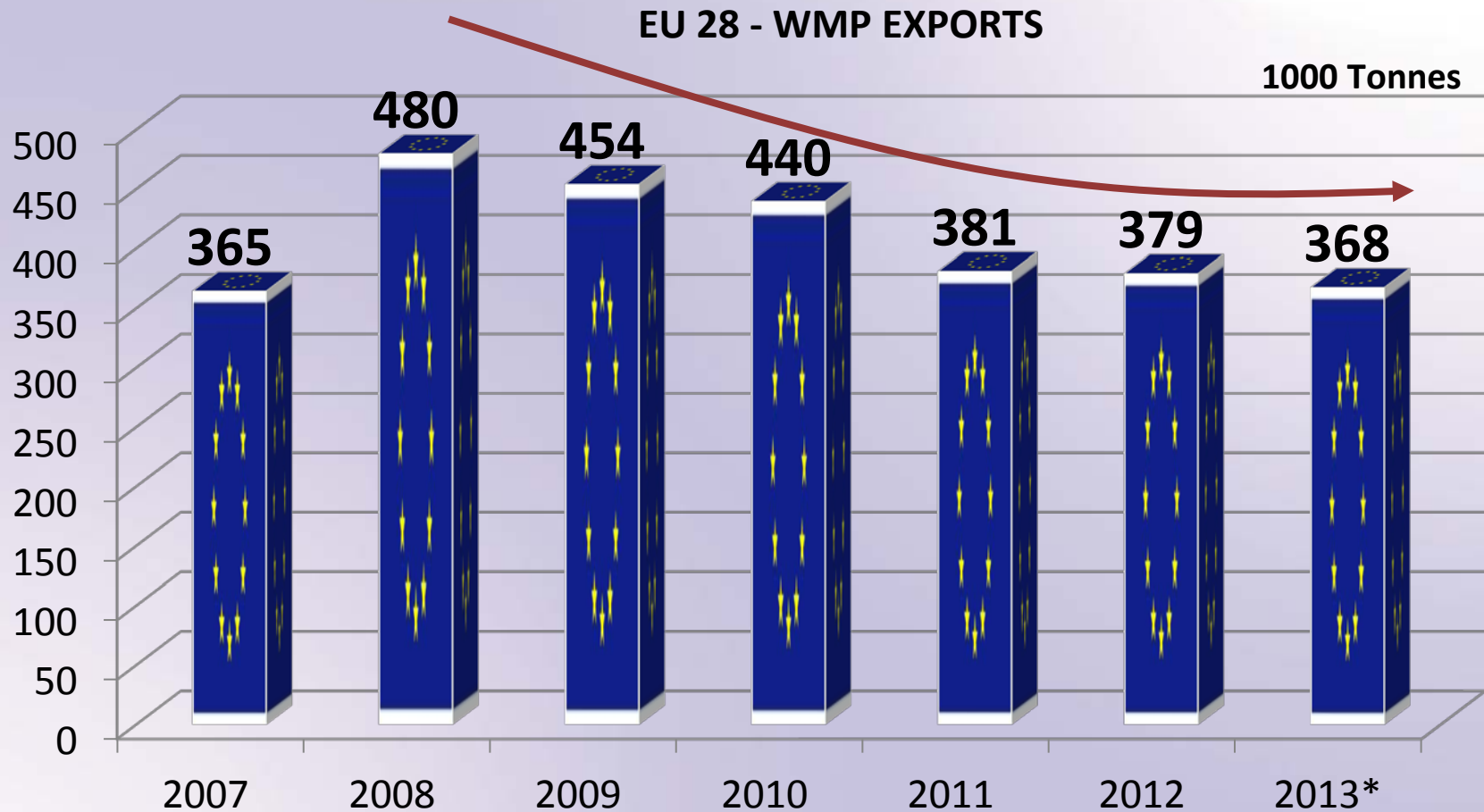
EU 28 - SMP EXPORTS





EU Outlook

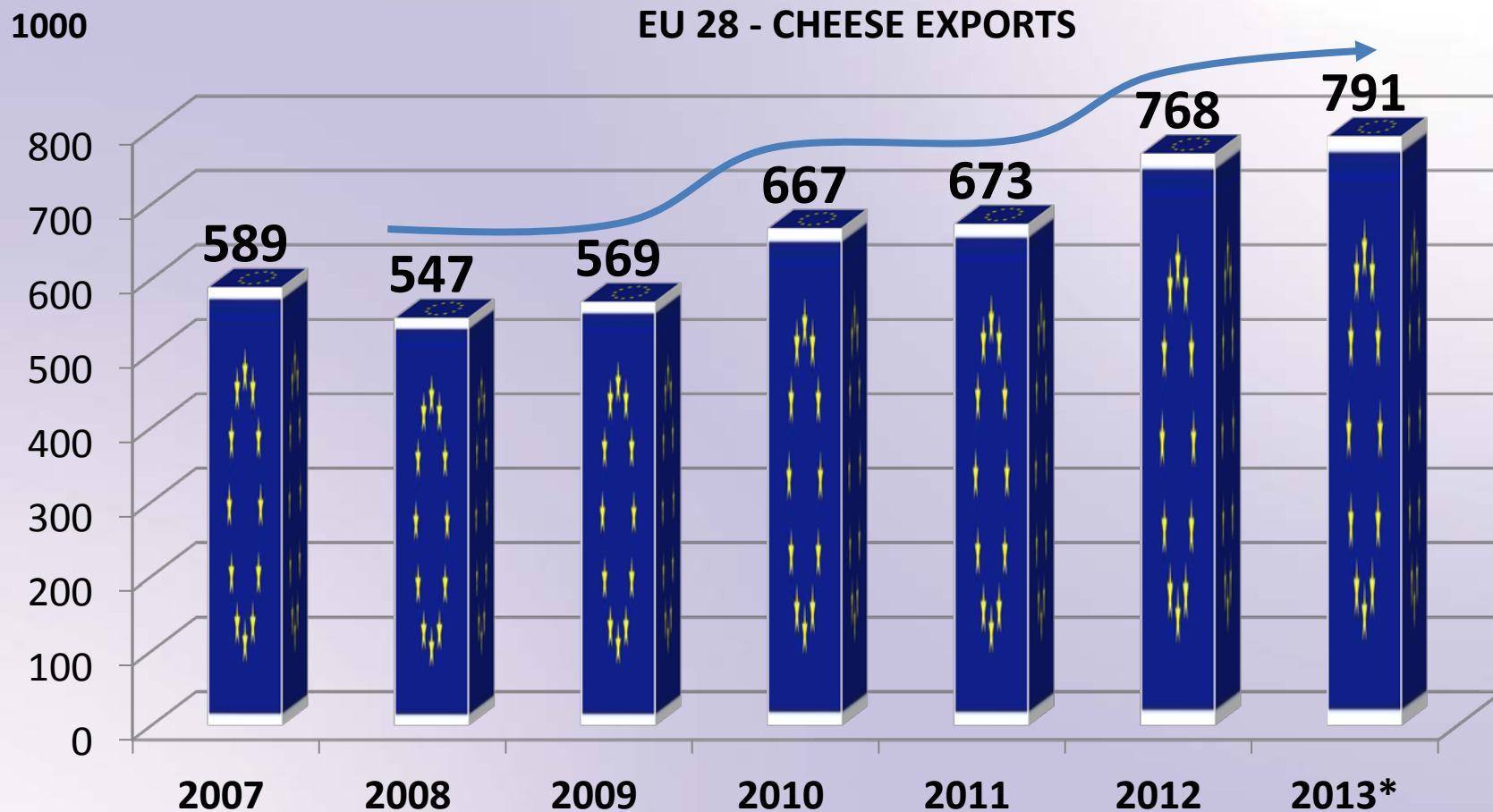
Is powder in trouble?





EU Outlook

and should we put all
our hopes in cheese?





EU Outlook

A lot of strong claims post quota

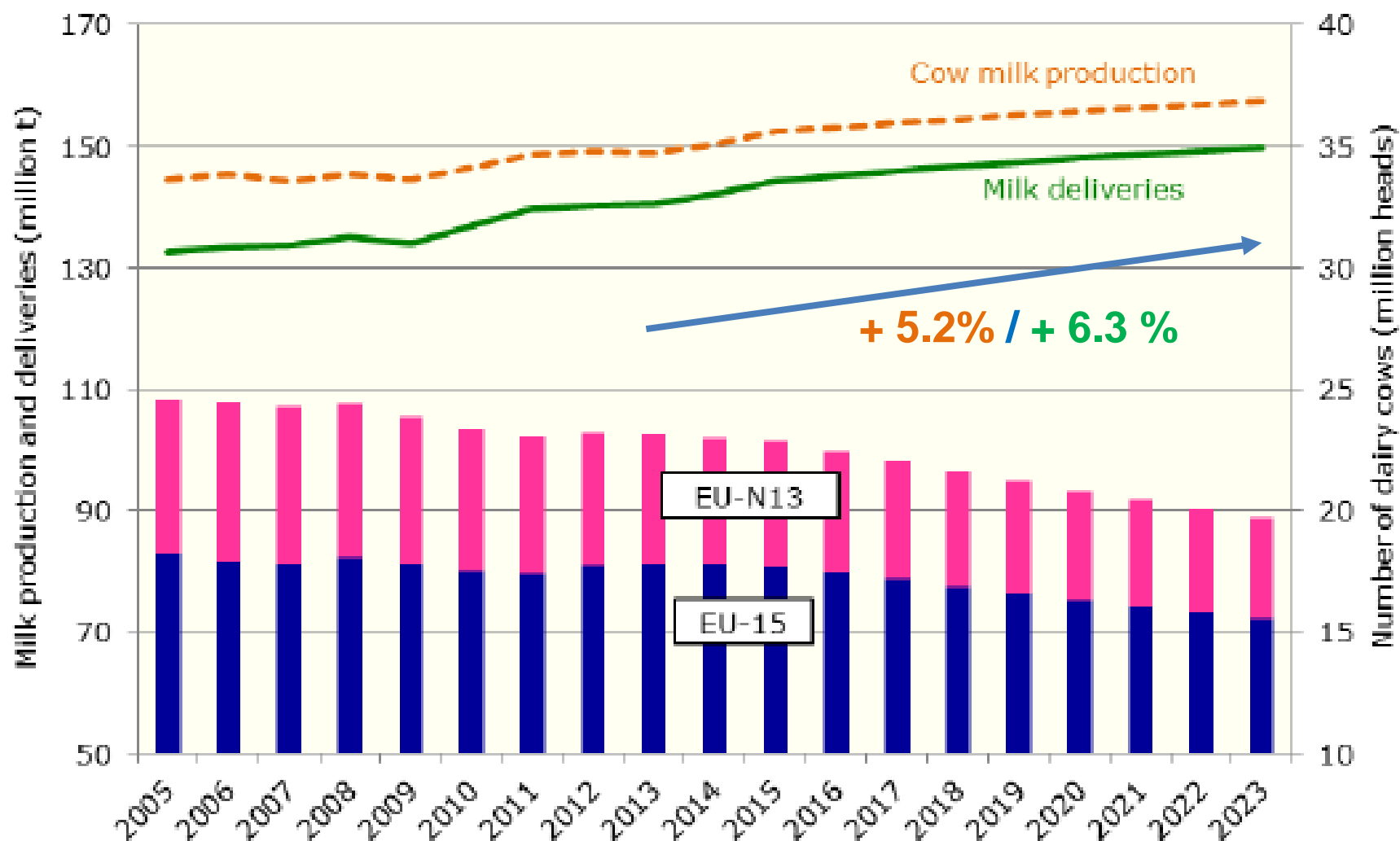


- Ireland + 50 %
- The Netherlands + more than 20 %
- Flanders: size of remaining dairy farms to double by 2020 producing 20 % more milk
- Similar claims in Germany, Denmark, Estonia
- UK wants to become self-sufficient by adding 4 million tons of milk by 2025



EU Outlook

Commission's Medium Term Outlook



Source Commission



EU Outlook

Commission's Medium Term Outlook



- Quota elimination will not cause a revolution but
 - Quota abolishment appears to be slowing down growth?
 - Other studies show growth pace x 2
 - Recent increase in cow numbers has not been foreseen?
- Extra milk mostly destined to cheese but
 - Domestic consumption growth to outperform recent years
 - Export continues to grow but at lower pace
- Outlook for powder not so bright but
 - most investments have been geared towards powders
 - Over 0.5 % growth milk will have to go to powder

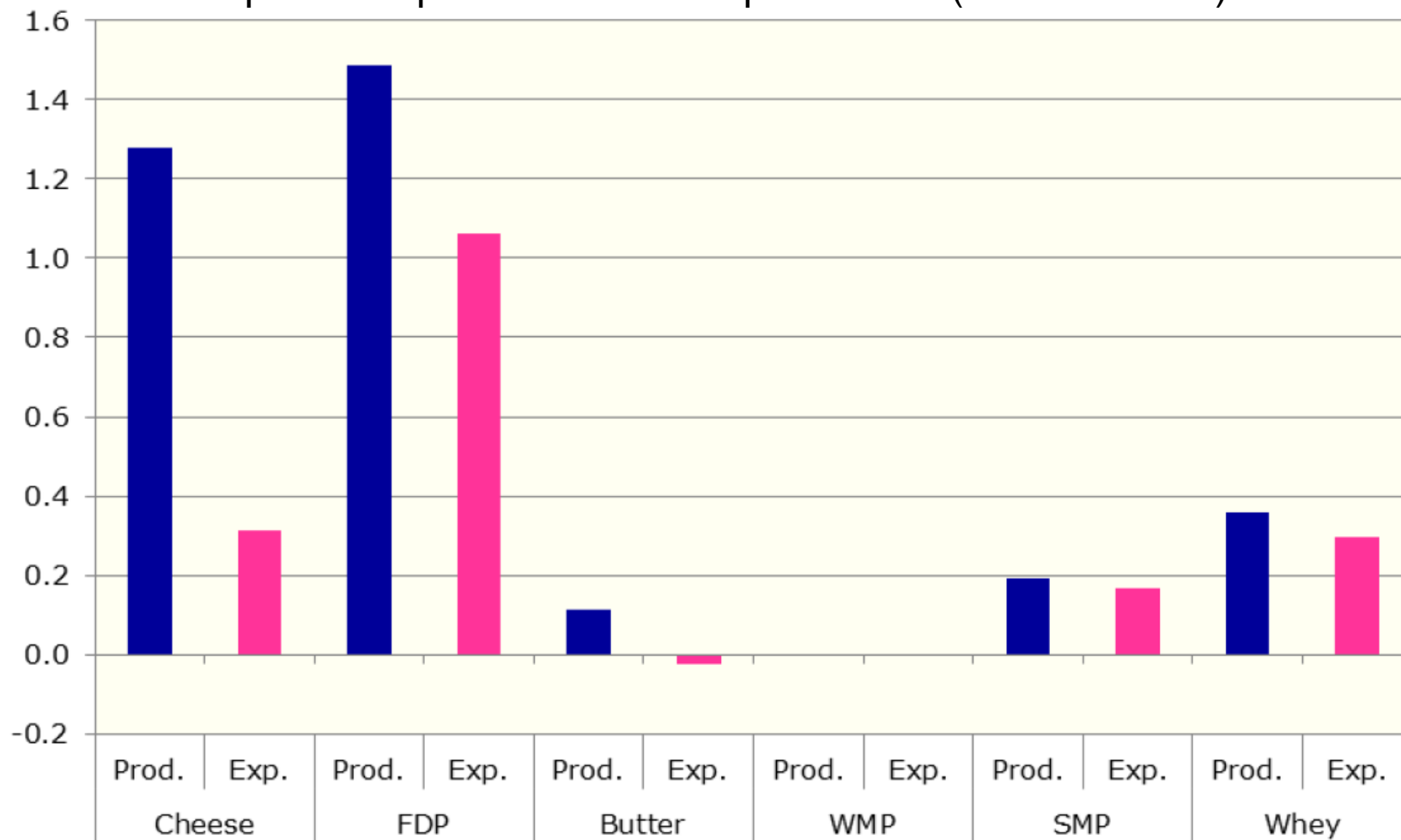


EU Outlook

Commission's Medium Term Outlook



Development of production and exports 2023 (million tonnes)





EU Outlook

Is there a future for price risk tools?



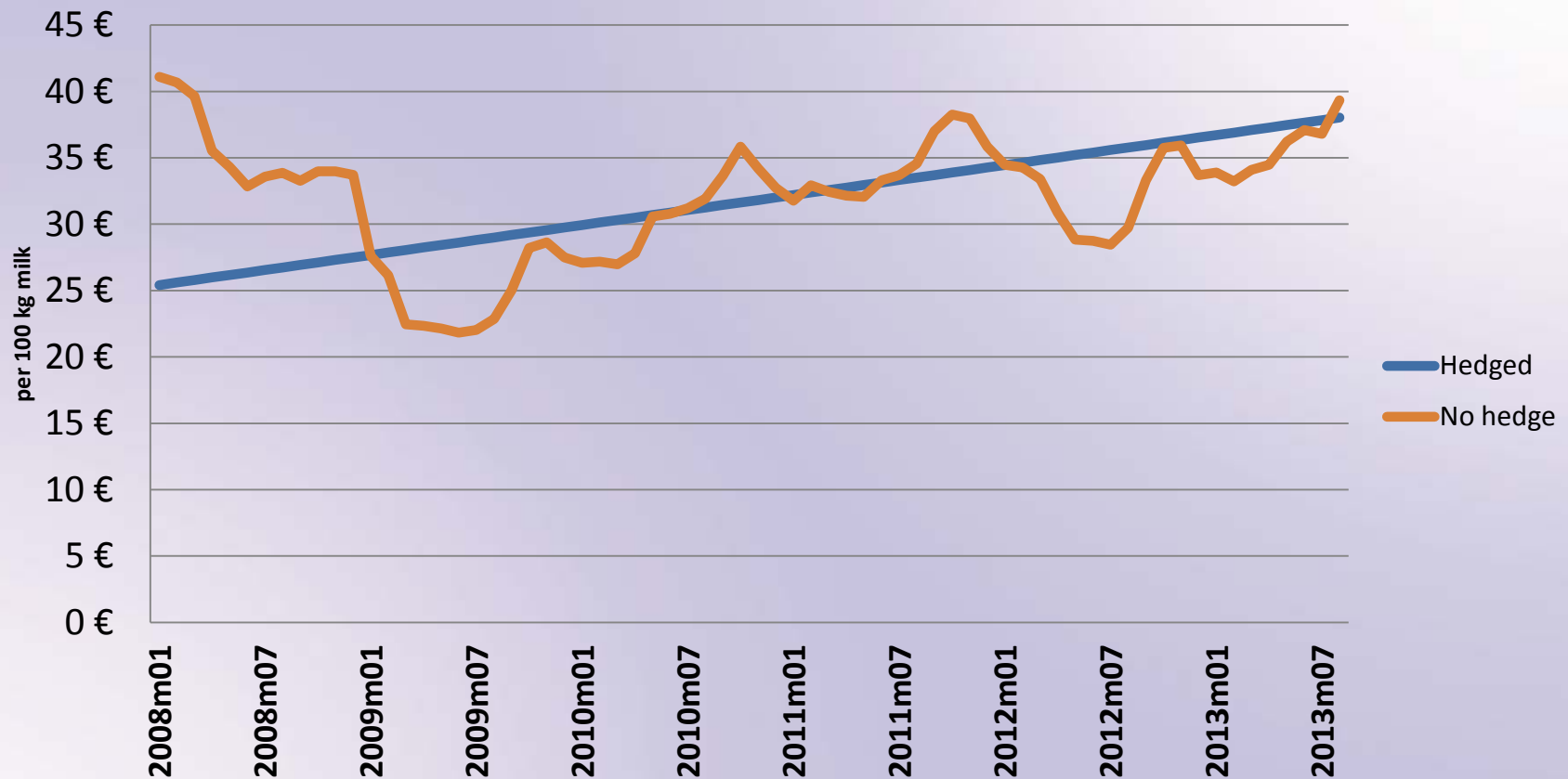
- Eurex butter, SMP and whey futures still lack liquidity
- Convergence physical market with settlement price mechanism could be better
- US or NZ futures are more liquid but not yet as suitable
- Milk price models are contra productive.
- Still need a big mentality shift with all actors in the dairy chain: a lot of lip service – little action



What is the purpose of hedging



Turn the orange line into the blue line

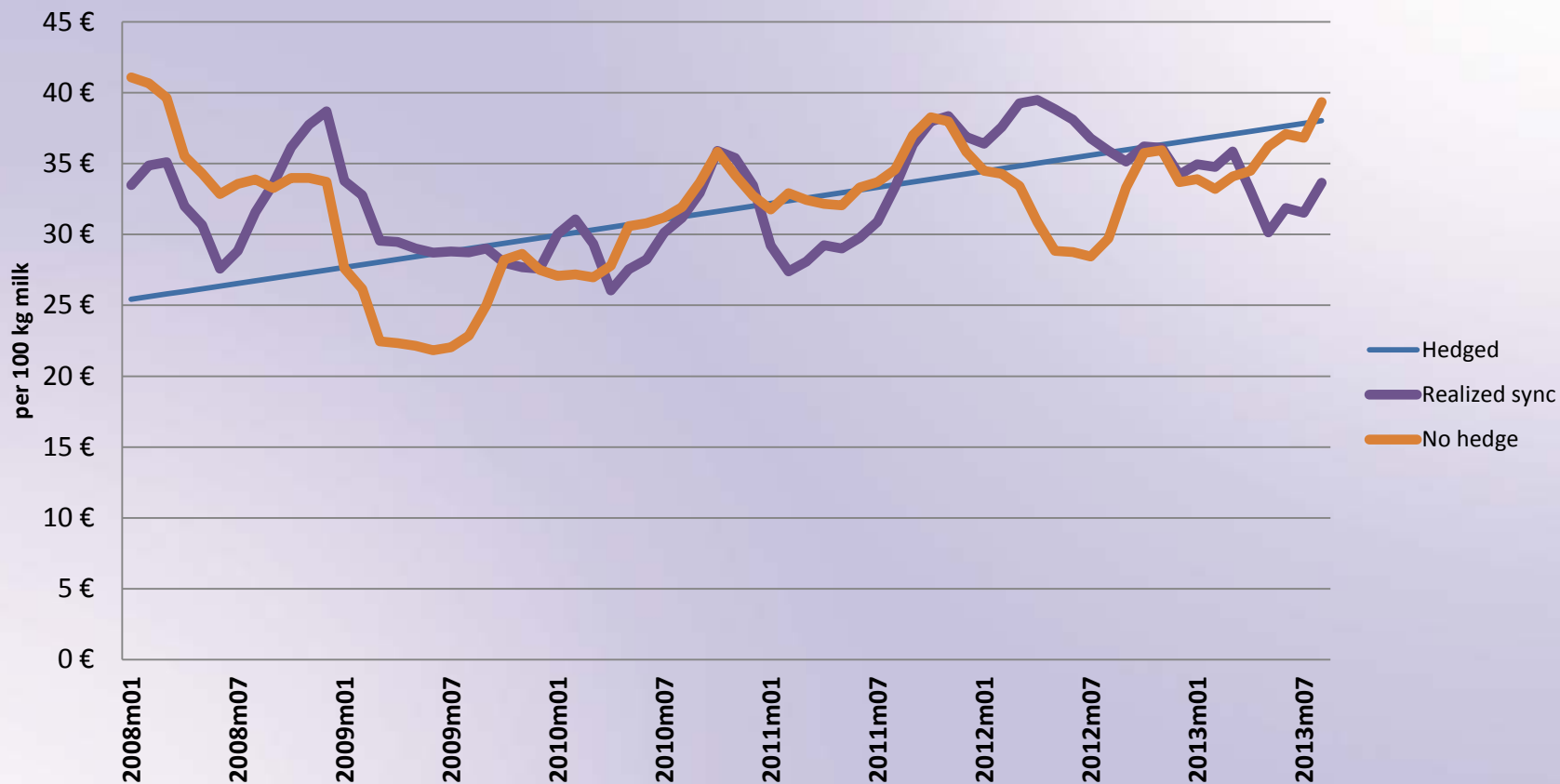




What would have been the current result



Orange line turns into purple line





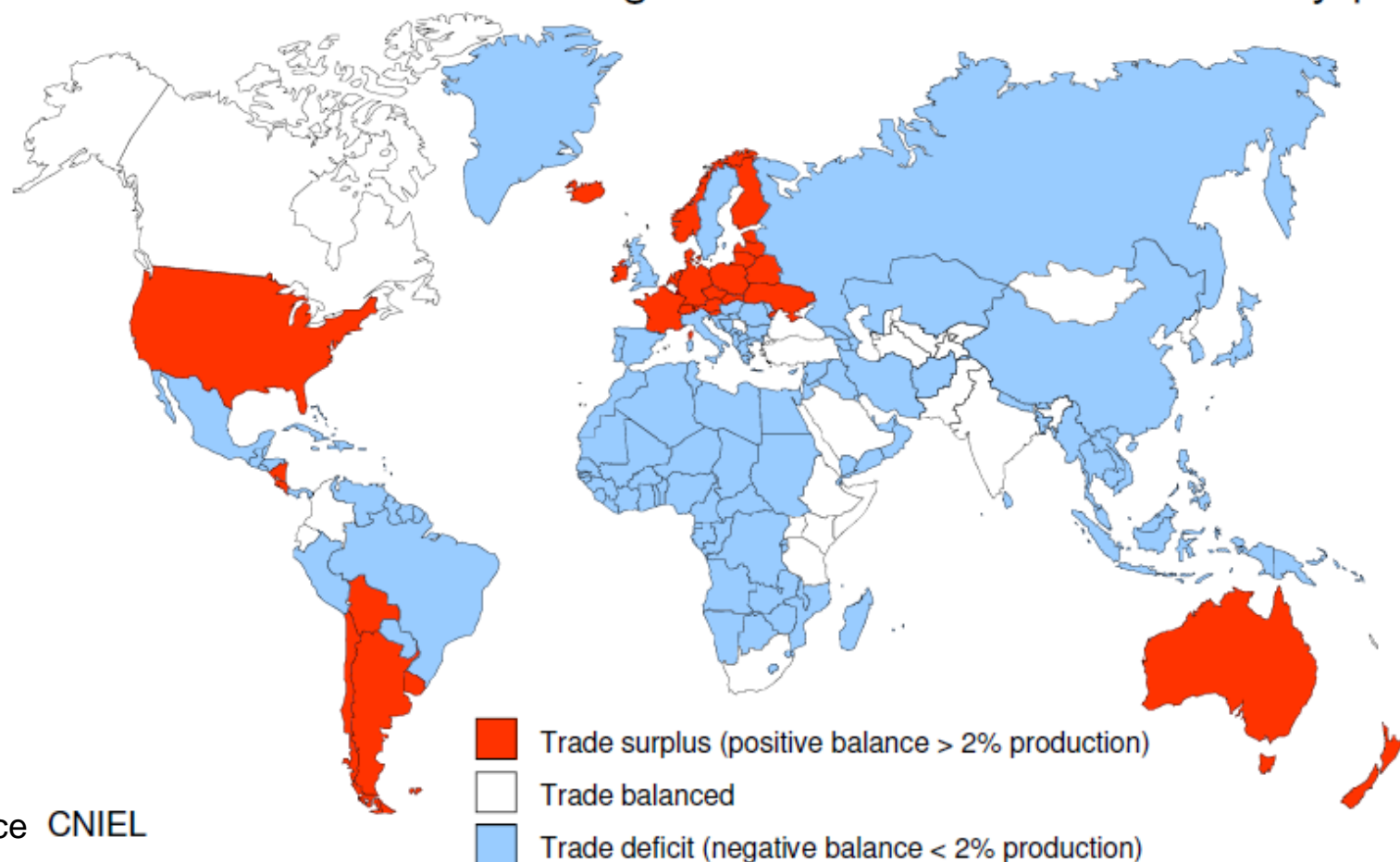
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Classification of countries according to their trade balance for dairy products



Source CNIEL



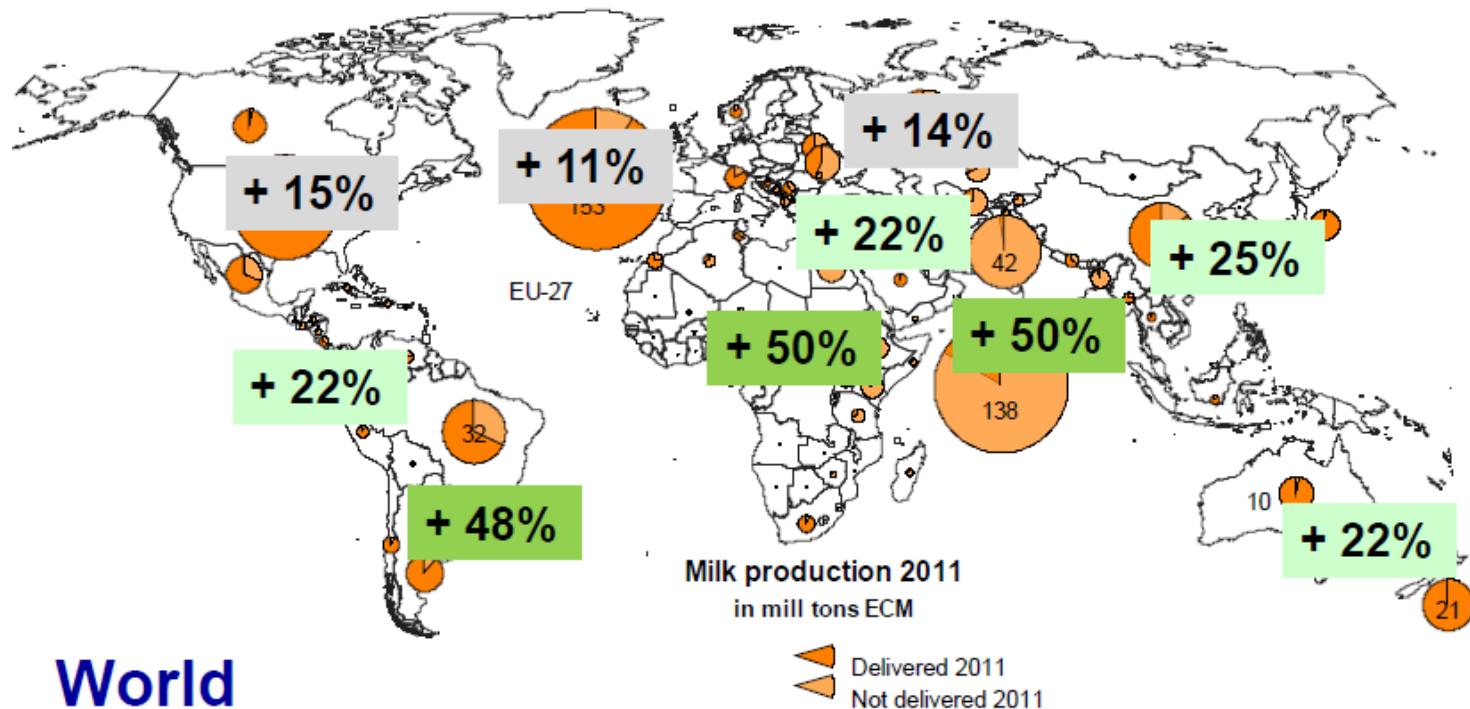
Global Outlook

Milk Production Development



► How will milk production grow by 2023?

IFCN Baseline results on production growth next 10 years



World

+ 225 mill t, that is +29% or +2.3% per year



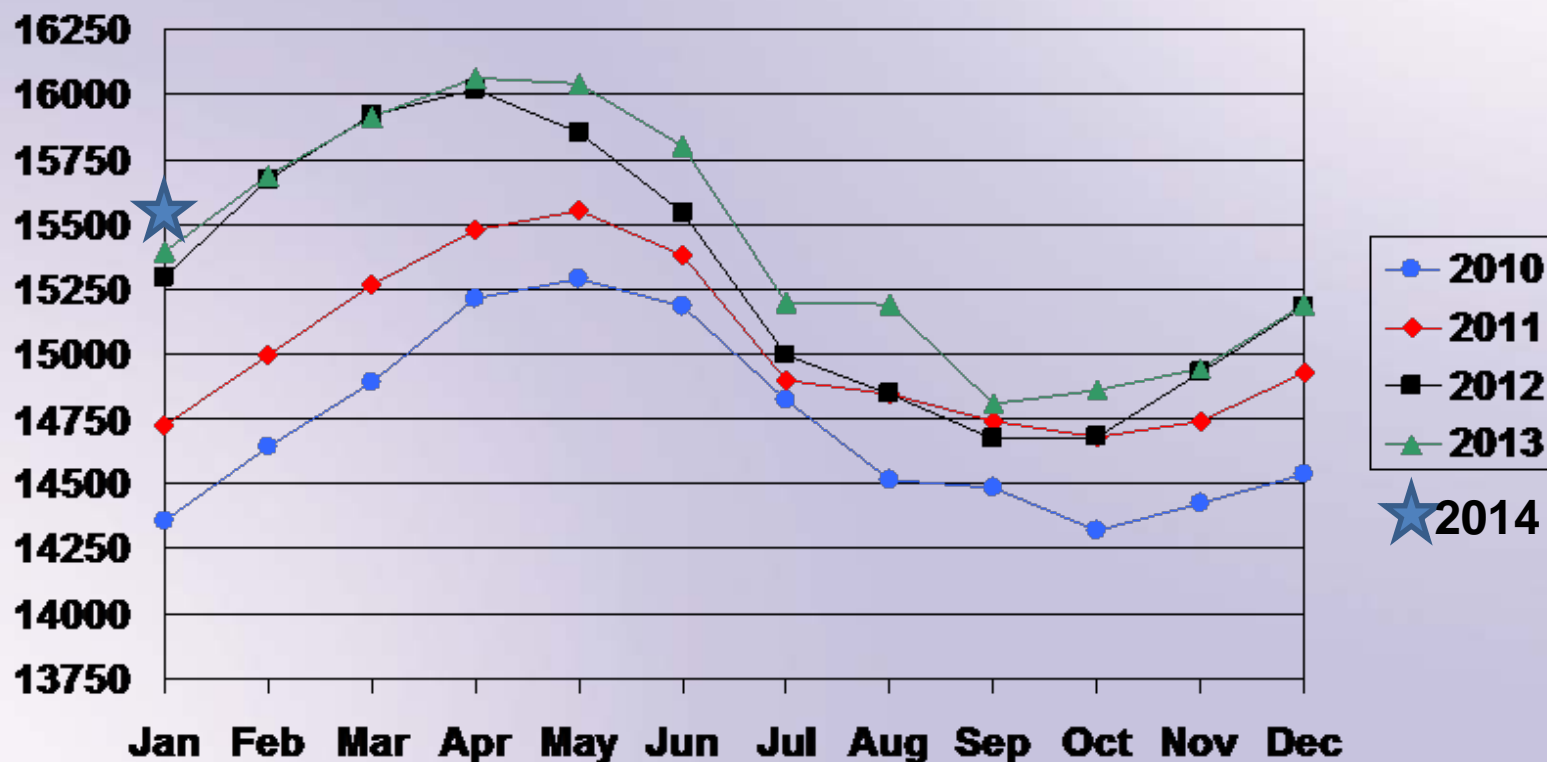
Global Outlook

US Milk Production



23-State Monthly Milk Production x million pounds, 30 day avg.

Updated 20/2/2014



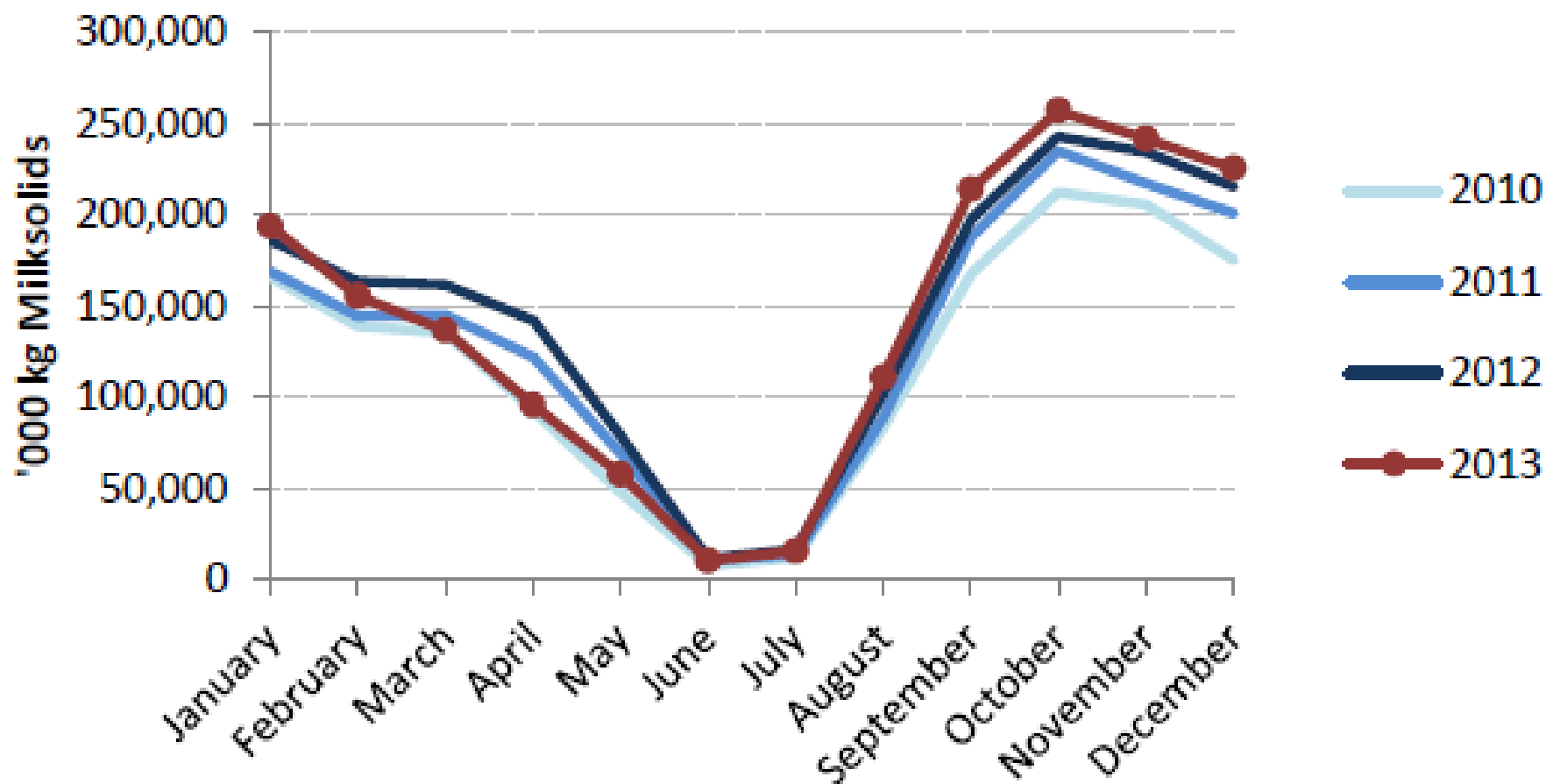


Global Outlook

NZ Milk Production



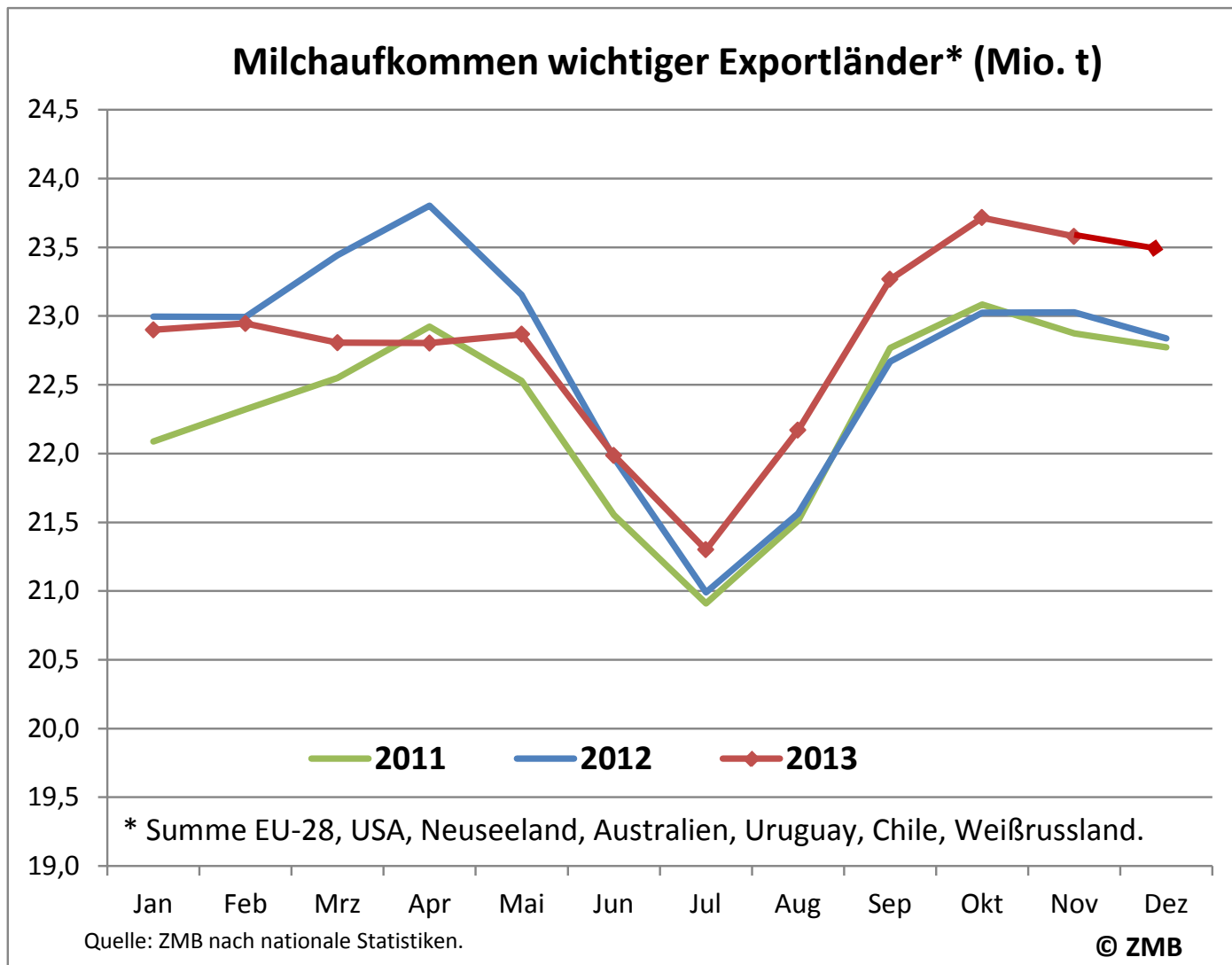
NZ Milk Production





Global Outlook

Major Exporters expanding after weak 12 months



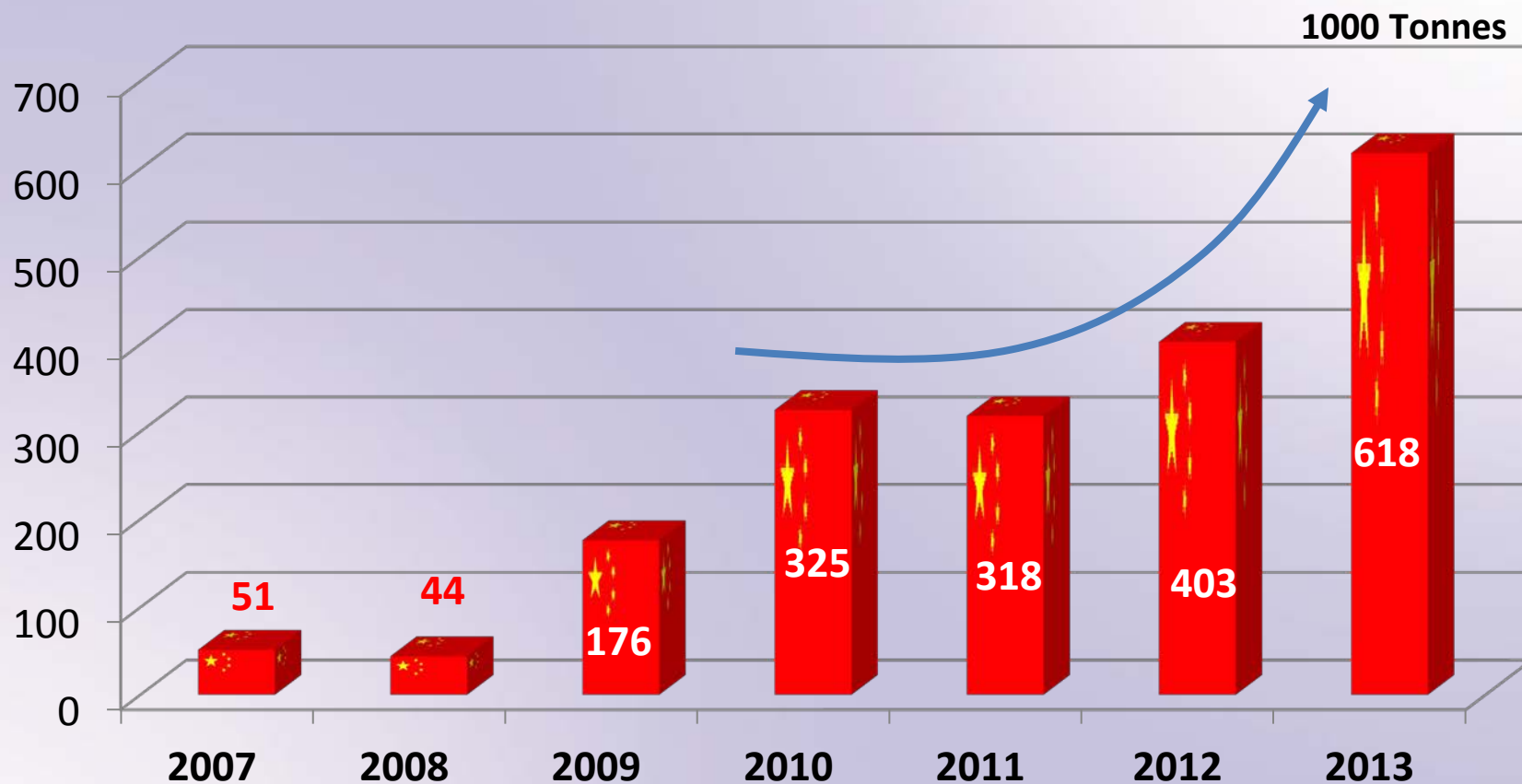


Global Outlook

China Imports

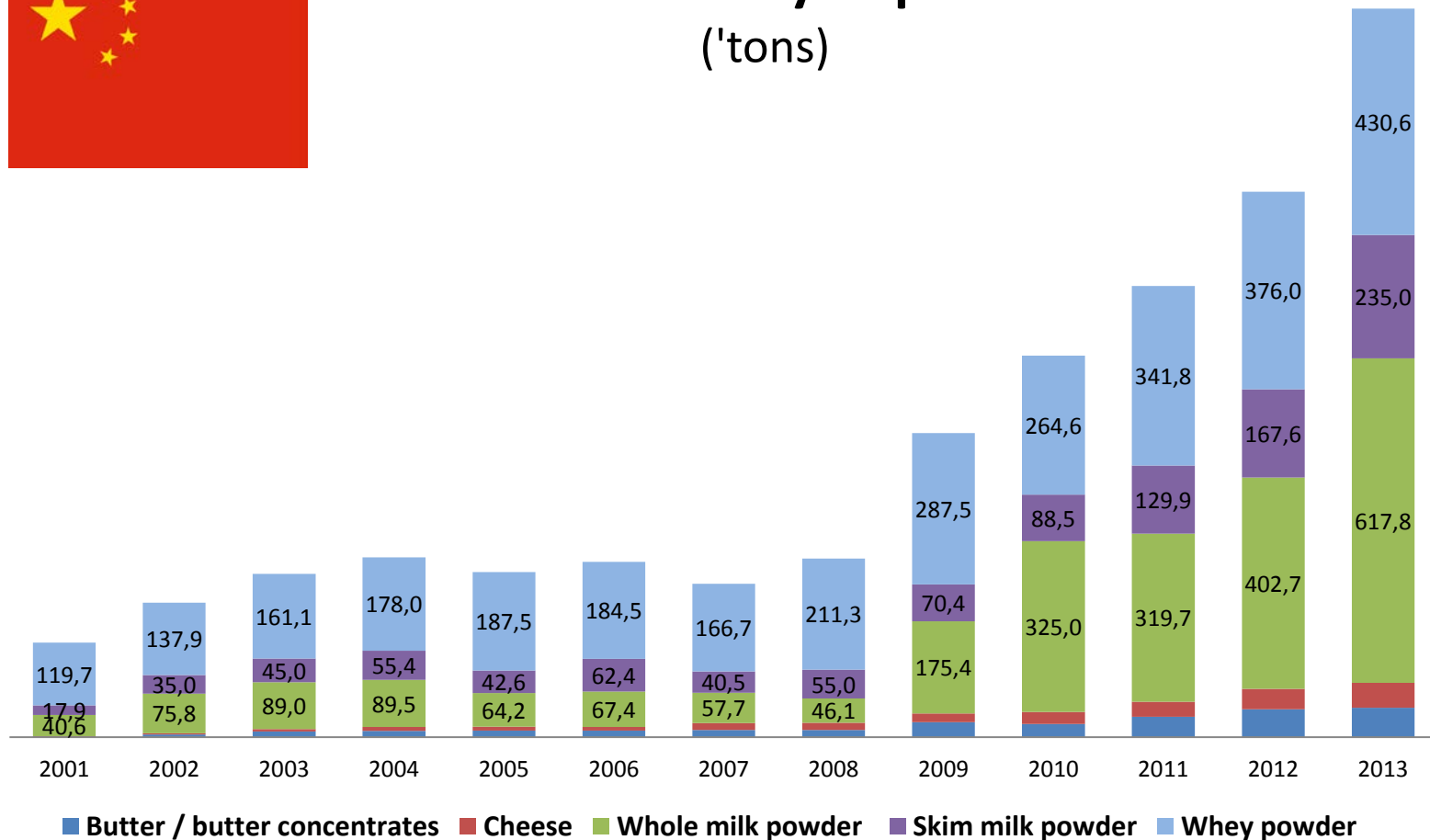


CHINA - WMP IMPORTS





Chinas Dairy Imports ('tons)

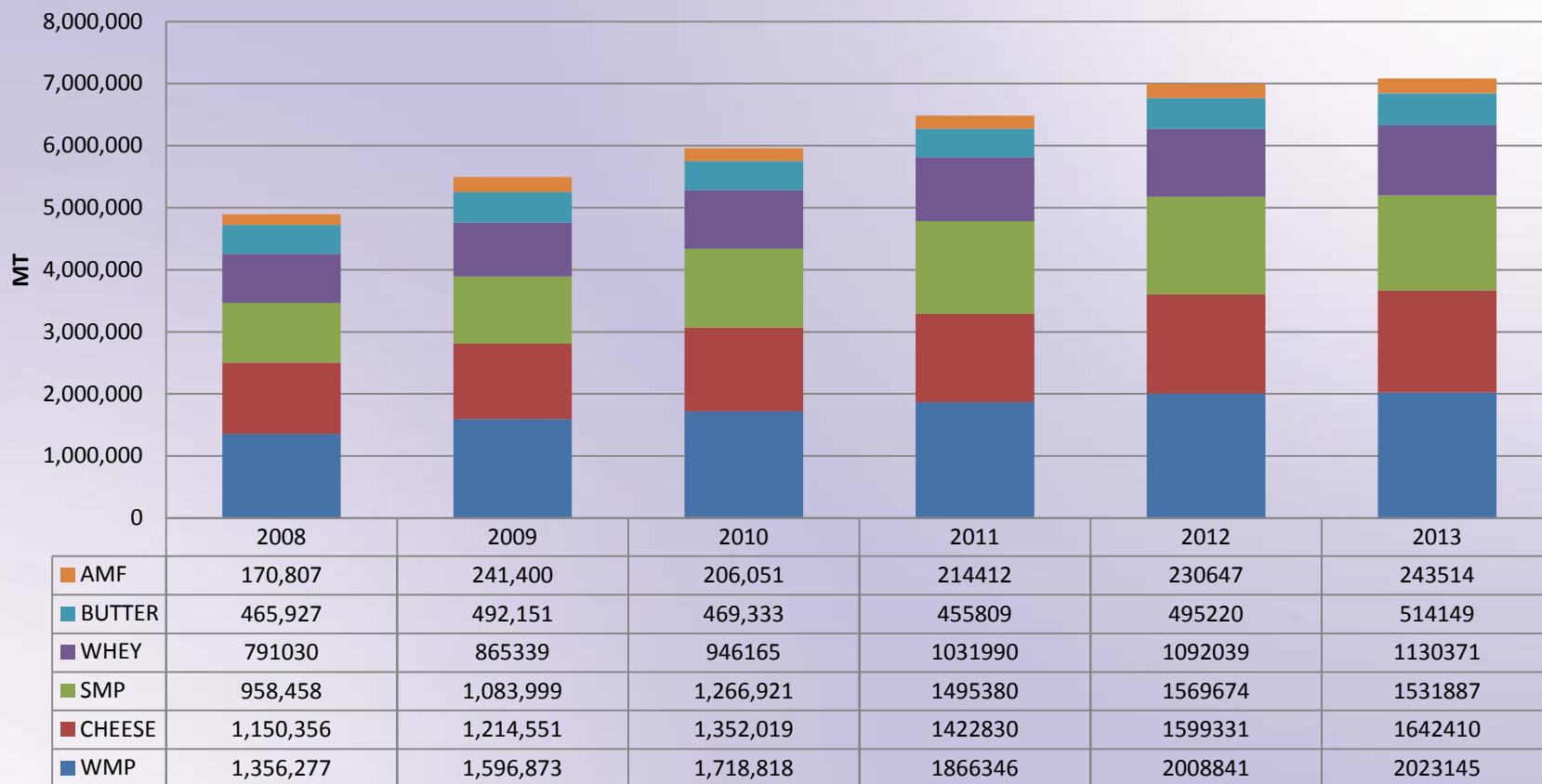




Global Outlook Export volume



COMBINED EXPORTS (NZ-EU-USA-AU-ARG-UR)

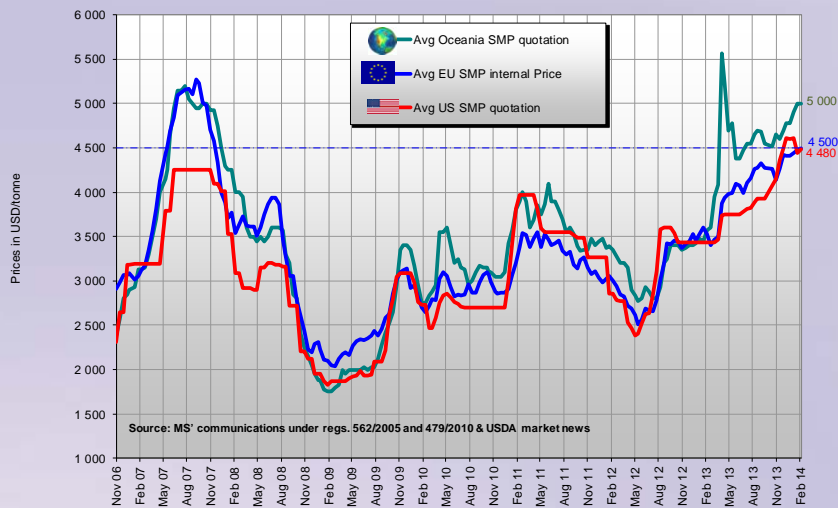




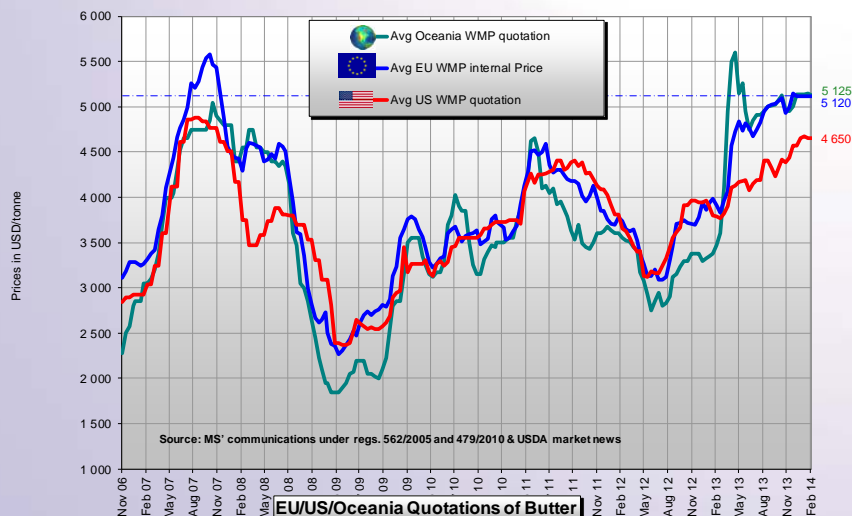
Current Global Market Converging High Global Prices



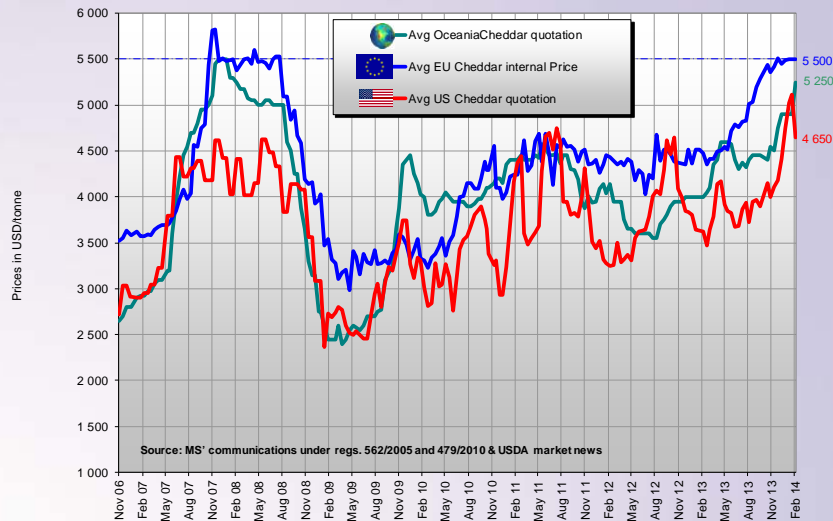
EU/US/Oceania Quotations of SMP



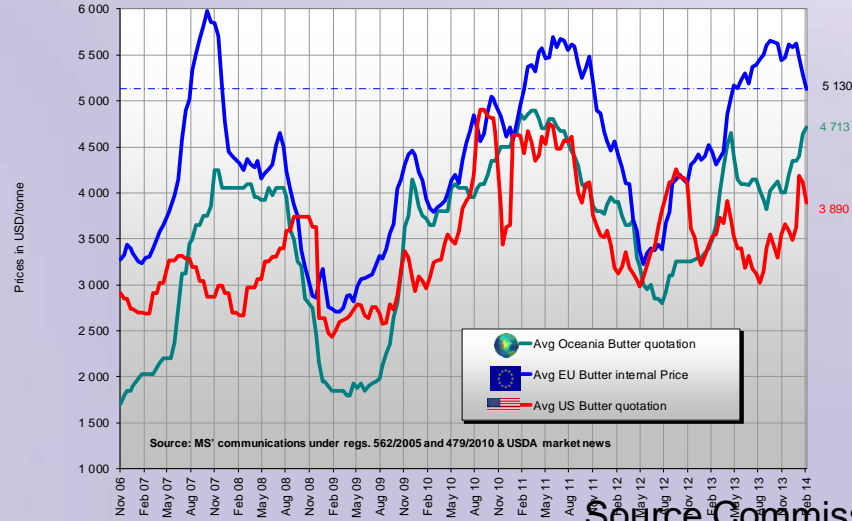
EU/US/Oceania Quotations of WMP



EU/US/Oceania Quotations of Cheddar



EU/US/Oceania Quotations of Butter





Conclusions



- 2013 has been a special year
 - Relatively stable high prices
 - Modest milk production growth in surplus countries
 - Global Trade did not increase much
 - If global demand was up: who supplied?



Conclusions



- 2014 could be an interesting year
 - Some policy changes after all?
 - China shifting to an even higher import gear?
 - Strong production growth in surplus countries?
 - Global trade back on track?
 - Quid milk supply growth in importing countries?
 - Quid trade negotiations?
- All the more interesting for 2015 and beyond



Thank you

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